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Taxation in Romania - Some Positive Aspects

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Abstract

The field of taxation is often a subject of analysis, due to its importance for the formation and administration of public financial resources. By taking into account the local, national and international size of taxation, may be thus identified strengths, weaknesses, opportunities and threats. Although the taxation in Romania is often criticized both by taxpayers and by specialists, there is a progress in taxation field as a result of actions taken in forming and managing fiscal revenues. Without claiming an exhaustive approach, through this article we mention some positive aspects of Romanian taxation. We believe that these should be consolidated and continued.

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1. Introduction

Taxation was, is and will be an essential component in the life of any nation, because in most countries the formation of public financial resources is based on fiscal revenues. Thus, the way to cover the public needs depends heavily on taxes. In this context, numerous specialists have succeeded: to identify the purpose and role of taxation (Razin A., Slemrod J., 2008); to analyze the link between taxation and development (Burgess R., Stern N., 1993); to demonstrate the influence of taxation on decisions at the microeconomic and macroeconomic levels (Dennis-Escoffier S., Fortin K., 2008); to identify optimal solutions for taxation (Krug S., 2011); to establish fiscal management

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functions and principles (Shah A., 2005); to analyze the qualitative indicators of taxation (La Porta R., Lopez-de-Silanes F., Shleifer A., Vishny R., 1999); to present how the taxation affects the quality of governance (Moore M., 2007). All these approaches emphasize the role of taxation for economic growth.

Since the growth rate is greatly influenced by the impact of fiscal policy decisions and budgetary decisions (Myles G., 2007), while the tax system, the quality and quantity of public services can be managed (Wasylenko M., 1997), the possibilities for improvement of taxation must be in the attention of any government.

Within this framework, three major lines of action included in the medium-term strategy 2012-2016 of the National Agency for Fiscal Administration in Romania are combating tax evasion, increasing efficiency and the dynamics of fiscal revenue collection and encouraging voluntary compliance. These actions start from the premise that the budgetary revenues collected are one of the essential conditions for good development of the Romanian society. (MFP, 2012)

Often, taxpayer from Romania perceives tax burden as hard to bear and attitude towards fiscal and budgetary policy is unfavorable. Although institutions with attributions in the fiscal area provide periodic reports on the performance achieved, many studies highlight only the shortcomings from fiscal and budgetary domain, with the negative impact on taxpayers, which often perceive taxation as a factor that does not permit the development.

Through this paper we try to capture some positive aspects of Romanian taxation, thus providing elements which lead to increased confidence in fiscal institutions and their actions.

2. The evolution of fiscal freedom index in Romania

Since 1995, the fiscal and budgetary aspects occupies an important place in the world ranking of economic freedom (The Heritage Foundation, 2013), so, fiscal freedom and government spending are among the 10 indicators considered, grouped in 4 categories (Rule of Law; Limited Government; Regulatory Efficiency; Open Markets). In this context, the quantitative factors used to determine fiscal freedom are the top marginal tax rate on individual income, the top marginal rate on corporate income and the total tax burden as a percentage of GDP, and the quantitative factor considered for government spending is government expenditures as a percentage of GDP (Beach W., Kane T., 2007).

From the data analysis recorded by Romania, during 1995-2013 (The Heritage Foundation, 2013) can be observed the following:

- an ascending trend for fiscal freedom, namely: repressed, for the period 1995-1999 (with the lowest value recorded in 1995, of 39.4), mostly unfree for the period 2000-2001 (with a value of 58.3 and 57.6), moderately free, for the period 2002-2004 (with the highest value recorded in 2004, of 69.9), mostly free in 2005, with a value of 70.1, free, for the period 2006 -2013 (with the lowest value in 2008, of 85.6 and the highest in 2013, of 87.9);
- government spending had fluctuating values, most of the times having the attribute moderately free (the lowest was recorded in 2012, of 55.1 and the highest value in 2007 of 71.0);
- in 2013, Romania held the 59th position among the 177 jurisdictions ranked with a value of 65.1 for economic freedom (moderately free);
- based on the values recorded annually, the indicators that have contributed significantly to increase the value for economic freedom in Romania during 1995-2013 were trade freedom, fiscal freedom and government spending, and on the opposite side being situated property rights and freedom from corruption;
- if the value for economic freedom in Romania, in the year 2013 was above the world average, with 6.9 points and below the European average with 1.5 points, the value for fiscal freedom exceeded the world average with 13.0 points and European average with 15.4 points.

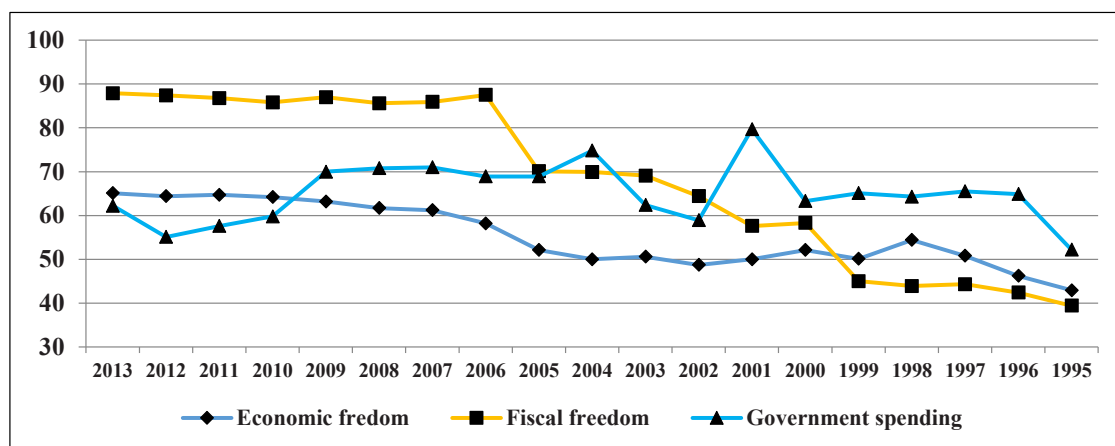


Fig. 1. The evolution of Economic freedom, Government spending and Fiscal freedom for Romania
 Source: The authors processing, based on The Index of Economic Freedom, The Heritage Foundation, 2013

The authorities should accord importance to fiscal freedom and government spending for the benefits of economic freedom, because "economic freedom may constitute an explanatory factor for growth and the distribution of income". (Berggren, N., 2003).

3. Organizational improvement

Positive action of each state fiscal policy can be observed, both through the way as it is done the tax administration activities in territorial profile, and of aspects related to the cost of tax revenues' administration. Thus, for Romania, consistently achieving the Government's program strategy and public finance and implementation of fiscal policy in territorial profile, implies the existence of General Directorate of Public Finance. The activity in General Directorates of Public Finance in each county and in Bucharest is carried out through: methodology and state revenues administration activity; public accounting and treasury activity; fiscal inspection activity; independent services for medium taxpayers; the administrations of public finances at municipal, urban and rural level.

Measures were considered improving fiscal activity, both at the central and in territorial level, they have imposed a reorganization of the tax authorities, so that, the whole activity to be able to generate efficiency and effectiveness, by reducing the cost of collecting the fiscal obligations and decreasing the expenses for each 1 RON collected to the public budget.

If in the year 2009, as a result of the organization of fiscal activity in the territories, there were a total of 414 tax units (General Directorates of Public Finance - DGFP, General Directorate of Administration of Large Taxpayers - DGMC; Public Finance Administrations of Medium Taxpayers - AFPCM, Public Finance Administrations for Municipal Level - AFPM, Public Finance Administration for Urban Level - AFPO, Public Finance Administration for Rural Level - AFPC; Public Finance Administrations for Sector - AFPS), after the reorganization, the number of tax units decreased in 2011, with 108 (respectively a reduction of 26.08%), thus lead to conducting the fiscal activity in a number of 306 tax units. (ANAF, 2013).

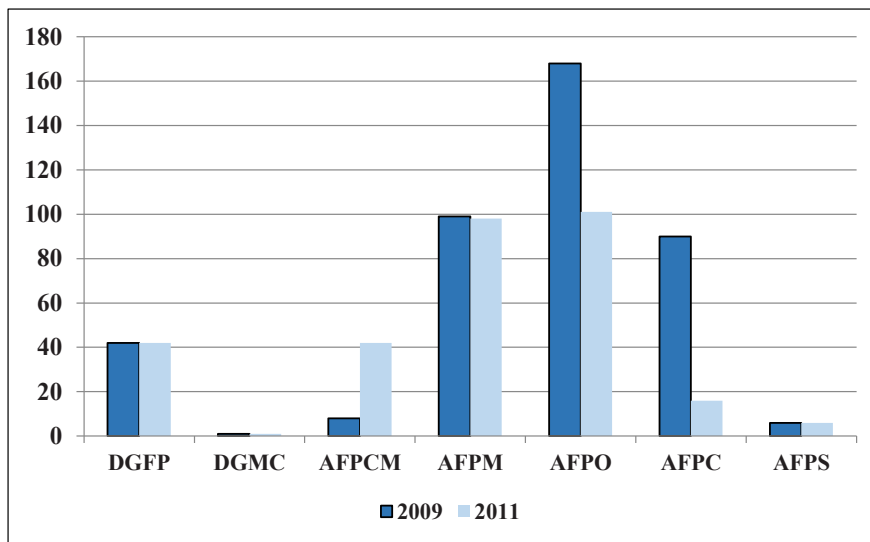


Fig. 2. The evolution of the number of tax authorities in Romania

Source: The authors processing according to data published on the official website of the Romanian National Agency for Fiscal Administration

The beneficial effects of the reorganization of fiscal institutions will be felt, if will be implemented the regionalization actions on tax administration, respectively: the creation until July 1, 2013 of the 8 Regional General Directorates, which will integrate the structures of the National Customs Agency and the Financial Guard; reducing of the number of the financial administration to 47 units, in the year 2015, based on process automation of activity and the information system strengthening. (MFP, 2012)

4. Introduction of quality standards

Improving public services and increasing performance through efficiency and effectiveness are key objectives for organizations of public sector, considered since 1980, for the total quality management. (Park B., 1997)

At the level of any organization, an important way to implement quality management is the application of quality standards, often considered as the first step to create a culture of excellence. (Kelemen L.M., 2005)

In 2007-2012, the list of performance indicators related the Plan of tax administration in Romania there appeared a series of changes, that highlight the need to adapt the directions for improvement in the tax area to changes occurred, both in the conduct of the fiscal activity and in the manner of action of the taxpayers. Currently, the indicators needed to measure the fiscal performance in Romania include: reducing recoverable arrears at the end of the reporting year / reduction of recoverable arrears outstanding as at end of previous reporting year; the degree of voluntary compliance to tax obligations; the number of fiscal inspections performed by a fiscal inspector; attracted additional amounts (net) on an inspector; the degree of processing in term of tax returns; the degree of voluntary submission of tax returns, on types of taxes; the rate amounts allowed by the court in total amounts disputed in court; the average of criminal allegations made by a fiscal commissioner; the average value of the decisions establishing the precautionary measures issued by a fiscal commissioner; the percentage of the number of criminal complaints in total control documents completed; the estimated value of confiscations goods and money; the average value of fines applied by a fiscal commissioner; the efficiency for subsequent verification performed by subordinate structures on customs operations; and others. (MFP, 2011a)

On the basis of this reason, improvement in the field of taxation should take into account the introduction of quality standards, through which it will maintain and continually improve the quality of services offered and will assist in an increase in the confidence of taxpayers in fiscal institutions. (Swamidass P.M., 2000)

Developing partnership between taxpayers and the tax administration and better information of the taxpayers regarding their rights and obligations are the main ways that can improve the assistance provided to taxpayers by fiscal institutions. By introducing, since 2015 the quality standards for services provided to taxpayers (MFP, 2012a), the quality of services provided to taxpayers will increase, and if they will be well designed, well implemented and well managed will lead to results that is rewarding to taxpayers requirements and expectations. (Evans J.R., 2010)

5. Increasing the degree of voluntary tax compliance

Although taxpayers are aware of their obligations according to the legal fiscal provisions of calculation, declaration, record and payment of taxes, existence of inadequate fiscal climate can significantly reduce the degree of voluntary compliance in declaring and payment. In an antagonist fiscal climate, taxpayers feel that the tax authorities are working against them and often they feel persecuted, while in a synergistic fiscal climate, the tax administration is seen as a partner that offers services. (Kirchler E., Hoelzl E., Wahl I., 2008)

The researches conducted in the voluntary compliance area highlight the following: the social norms not directly influence taxpayer behavior, instead, the personal norms are those that change significantly the degree of voluntary compliance (Wenzel M., 2004); the variables that can positively influence the degree of voluntary compliance are the understanding the role of taxation, the understanding of specific terms from taxation field, the attitude toward the government, the personal norms, the motivational tendencies, the correctness demonstrated by fiscal institutions, the transparency of decisions fiscal, the respect received from the fiscal institutions (Hofmann E., Hoelzl E., Kirchler E., 2008); the taxpayer behavior is changing greatly depending on how it feels the repercussions of taxes (Torgler B., 2002).

Based on these considerations, and the dissatisfaction of taxpayers, the National Fiscal Administration Agency from Romania recognized the important role of the external communication in the policy of tax administration, in order to establish a unitary framework of the relations between the institution and taxpayers, based on a transparent partnership. Thus, for successful of the external communication, the defining elements are accessibility, variety of means, the quality and promptitude, the opinion of taxpayers and the multipliers of information. (MFP, 2004)

In the last period, measures undertaken by Romanian fiscal institutions led to an increase in voluntary compliance to tax declaration and payment. In 2010, the level of voluntary compliance payment increased by 1.5 percentage points compared with the situation in 2009, so at the end of 2010 being of 78.9% (MFP, 2010). Being implemented from 1 January 2011, the single declaration on income and social contributions, it was found an increase in the voluntary compliance to the declaration, the degree of online filing of the Declaration 112, being at the end of 2011 to 98% (MFP, 2011b). Compared to 2011, in 2012, the degree of voluntary compliance declaration increased by 3.1 percentage points from 87.2% to 90.3%, while the degree of voluntary compliance payment increased by 1.8 percentage points from 77.9% to 79.7% (MFP, 2012b).

6. Conclusions

Based on the aspects presented by this article can be formulated the following conclusions:

- even if the Romanian authorities will work towards to improve the economic freedom index, focusing on measures that can increase the values for freedom for corruption, property rights and financial freedom (which registers the lowest values in 2013), should not be neglected the others indicators respectively the top marginal tax rate on individual income, the top marginal rate on corporate income and the total tax burden as a percentage of GDP, which must be reinforced at least at the level recorded in the past three years;
- if through the reorganization of the institutions with responsibilities in the field of taxation can be achieve a reduction in fiscal revenues administration costs and thus increased efficiency and effectiveness of fiscal activity, this reorganization should be carried out periodically, by considering the number of fiscal obligations, the number of taxpayers in administration, the declarative system structure and the degree of voluntary compliance;
- although the introduction of quality standards for the tax will be done only since 2015, we consider that the effect of this action will be fully felt, because during this period can be performed simulations to identify the most appropriate indicators;

- to improve declarative system, a better information to taxpayers and more action to combat and stop tax evasion are the elements that have increased the level of voluntary compliance, with a beneficial effect on budget revenues.
- Establishing a fiscal pressure under conditions of rationality, fair and impartial implementation of tax laws, taxpayer timely and well informed, transparency, efficiency and effectiveness in the use of public funds are the coordinates that can provide a positive image of Romanian taxation.

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